

מנהל מחלקת המזרח התיכון ודרום אסיה
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Office of Near East/South Asia Analysis, DDI

Memorandum for: Doug Mulholland

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Doug,

Per our conversation last night, attached is small background package for Secretary Baker on the visit of L. K. Jha. If there is anything else we can do for the Secretary or if there are any questions, please call me at

Needless to say, we would be 25X1 grateful for any feedback from Jha's stopover at Commerce.

Chief,
Subcontinent Branch

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12 March 1985

State Dept. review completed

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ادارة التحليل لشؤون الشرق الاوسط و جنوب آسيا
המחלקה לענייני המזרח התיכון ודרום אסיה
اداره تجزيه و تحليل خاور ميانه و جنوب آسيا
Office of Near East/South Asia Analysis, DDI

Memorandum for: Byron Jackson

Byron,

Per our conversation yesterday, attached is short background package for Secretary Baldrige on the visit of L. K. Jha. If there is anything else we can do for the Secretary or if there are any questions, please call me at . Needless to say, we would be 25X1 grateful for any feedback from Jha's stopover at Commerce.

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Chief,
Subcontinent Branch

12 March 1985

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12 March 1985

Blind Memorandum: L.K. Jha's Visit to Washington

Ambassador L.K. Jha, was one of Indira Gandhi's principal economic advisers and an early advocate of her moves after 1980 to relax government economic controls. Jha met with senior US officials in June 1982 to help prepare for Indira's visit to Washington the following month. Beyond offering reassurance that India was not tied closely to the USSR, his brief was confined to economics. [redacted]

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Jha's visit this month is part of the Indian government's preparations for Rajiv's trip to Washington in June and suggests he will continue to play an important role in Indian economic policymaking. Jha's recommendations almost surely influenced Gandhi's initial steps to make the bureaucracy more efficient. We expect Jha to present the thinking behind Rajiv's economic moves including the political and financial constraints on the new Prime Minister. Rajiv has hinted he plans further decontrol of the private sector and said he wants India to assimilate more Western technology. Jha is likely to encourage US officials to facilitate the export of advanced technology to India. Jha may be able to comment on the extent of support within the Indian business community for Rajiv and his economic programs, as well as New Delhi's view of the obstacles to greater cooperation between Indian and US businessmen. [redacted]

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As he did before Mrs. Gandhi's 1982 visit, Jha may raise his contention that US reluctance to support Indian borrowing from multilateral lending institutions hinders India's economic liberalization. Jha may also bring up issues such as North/South economic relations and the allocation of additional SDRs to developing countries that he feels strongly about but which we believe are of little interest to Rajiv. [redacted]

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[redacted]

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Indian Economic Policy in Flux

The Indian corporate sector has high expectations of economic policy reforms under Rajiv Gandhi that will ease bureaucratic impediments and stimulate growth. []

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Background. Since independence, Indian policymakers have regulated the economy through an extensive system of direct controls as well as a full range of macroeconomic policies. Even though a multitude of minor policy adjustments since 1980 has removed legal impediments to growth of production and investment, simplified import licensing procedures, encouraged ties with Western business, and increased use of foreign commercial loans, most Indian businesses are still protected from foreign competition and require government permission to increase output beyond authorized ceilings. Senior Indian officials were studying proposals for further decontrol when Indira Gandhi was assassinated last fall. []

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Rajiv Gandhi's Approach. Rajiv's interest in economic policy is second only to his concern about issues that threaten national unity, such as the Sikh problem. He is actively searching for ways to improve industrial productivity through assimilation of modern technology and decentralization of decisionmaking in the public sector. He believes that the central government should retain a major role in directing the economy, but that greater freedom for private activity can spur modernization, limit corruption, and ease strains on the government budget. []

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Signposts of Policy Change. Rajiv Gandhi's public statements have pointed to substantial liberalization of government restrictions on private industrial production and changes in foreign trade policy. He has:

- o Told businessmen that the "problem will not be with government constraints." Some industrialists already report that bureaucratic approvals can be obtained more quickly than in the past.
- o Called for concrete steps to promote exports. Recent government studies recommend further tax concessions, import privileges, and concessional loans.
- o Said he believes that Indian industry should be exposed to competition from imports.

Even so, there are signs that Gandhi will move cautiously. He expects to continue protection from imports for efficient manufacturers, although through tariffs rather than licensing. Looming balance-of-payments strains will probably limit his ability to promote productivity through increased imports. In addition, Gandhi's economic advisers welcome foreign investment, but only when it provides access to advanced technology or stimulates Indian exports. Wary of

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falling into a debt trap, they are adamant that India adhere to self-imposed limits on foreign commercial borrowing. [REDACTED]

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Implications for the US. Gandhi's fascination with high technology will probably sustain the recent trend toward increased cooperation between Indian and US business firms. If Indian access to desired technology is frustrated by US export controls, however, bilateral relations will be strained. Rajiv is likely, sooner or later, to criticize US policies that impact adversely on Indian borrowing from the Asian Development Bank and other multilateral lending institutions. [REDACTED]

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We do not expect Gandhi's pro-technology bias to weaken Soviet-Indian ties in the near future, however. The economic relationship between the two countries is grounded in Soviet sales of petroleum and military equipment to New Delhi. [REDACTED]

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Economic Policy Announcements Expected

- o The central government budget will be presented on March 16. It could provide information about tariff protection for domestic industries and subsidies for the public sector. [REDACTED]
- o The annual trade policy, usually presented in April, would reflect any changes in import licensing controls and export promotion efforts not already evident in the government budget. [REDACTED]
- o Detailed proposals for the Seventh Five Year Plan, which begins in April, are overdue and will be presented to the Cabinet in late July. [REDACTED]
- o Proposals for further reform of public sector industrial corporations are under consideration. [REDACTED]
- o Two ministries have been asked to prepare specific proposals to improve productivity, absorb technology, and use capacity more fully. [REDACTED]
- o Proposals for changes in agricultural policy will be prepared by June or July. [REDACTED]

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SUBJECT: L. K. Jha's Visit to Washington

Distribution:

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Office of Intelligence Liaison
Department of Commerce

1 - Douglas Mulholland
Special Assistant to the Secretary
Department of Treasury

1 - Jim Manley/AID/ASIA (LDX for possible review by
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